

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MONROE COUNTY LIBRARY SYSTEM	County MONROE
Audit Date 12/31/04	Opinion Date 01/21/05	Date Accountant Report Submitted to State: 3/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following: "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) COOLEY HEHL WOHLGAMUTH & CARLTON, PLLC			
Street Address ONE SOUTH MONROE STREET	City MONROE	State MI	ZIP 48161
Accountant Signature <i>Cooley Hehl Wohlgamuth &amp; Carlton</i>		Date 03-07-05	

MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN

ANNUAL FINANCIAL REPORT

December 31, 2004

**MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN**

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December 31, 2004*

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**Independent Auditor's Report**

Board of Directors  
Monroe County Library System  
Monroe County, Michigan 48161

We have audited the accompanying basic financial statements of the Monroe County Library System, a component unit of the County of Monroe, Michigan, as of and for the year ended December 31, 2004. These basic financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Monroe County Library System, a component unit of the County of Monroe, Michigan, as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information on pages 2 through 5 and 20 through 22, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Cooley Hehl Wohlgamuth & Carlton*

January 21, 2005

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2004*

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Using this Annual Report

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library:

- The *government-wide financial statement* provides both *long-term* and *short-term* information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short term as well as what remains for future spending.
- The Statement of Revenues, Expenditures and Changes in Fund Balances provides information on the Library's operations under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The reconciliation of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)*  
*Year Ended December 31, 2004*

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Condensed Financial Information

The table below compares key financial information of the government-wide financial statements in a condensed format between the current year and the prior year:

	<u>2004</u>	<u>2003</u>
Current assets	\$ 8,520,624	\$ 7,483,523
Capital assets	<u>5,548,711</u>	<u>5,324,970</u>
Total assets	<u>14,069,335</u>	<u>12,808,493</u>
Current liabilities	130,553	187,732
Deferred revenue	5,488,132	4,285,925
Other liabilities	<u>234,191</u>	<u>222,357</u>
Total liabilities	<u>5,852,876</u>	<u>4,696,014</u>
Net assets:		
Invested in capital assets, net of debt	5,548,711	5,306,380
Restricted for donor-restricted purpose	12,935	9,451
Unrestricted	<u>2,654,813</u>	<u>2,796,648</u>
Total net assets	\$ <u>8,216,459</u>	\$ <u>8,112,479</u>
Revenue:		
Property taxes	\$ 4,182,748	\$ 4,092,808
Other	<u>1,642,723</u>	<u>1,715,422</u>
Total revenue	5,825,471	5,808,230
Expenses - Library services	<u>5,721,491</u>	<u>5,036,299</u>
Change in net assets	\$ <u>103,980</u>	\$ <u>771,931</u>

**MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)  
Year Ended December 31, 2004*

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The Library as a Whole

- The Library's net assets increased by \$103,980 this year compared to \$771,931 in the prior year.
- The Library's primary source of revenue is from property taxes, which represent 72% of total revenue, a slight increase over 2003's income from taxes. Penal fines in 2004 accounted for 18.4% of revenue, a little more than the previous year. The Library's interest income accounted for about 1% of total revenue.
- Personnel services continue to be the Library's most significant expense, representing 64% of the Library's total expenses. Staff was granted a 3% increase in 2004. A capital project featuring improvements to the facade and grounds of the Ellis building was started in 2003 and completed in 2004.
- Depreciation expense of \$127,109 represents approximately 2% of the Library's total expenses. The Library's long-term debt activity is in the form of lease payments equal to the debt service payment for the Ellis building renovation. The renovation was completed in 1999 using \$1,800,000 Limited Tax General Obligation 1998 Building Authority Bonds. The Library paid \$244,525 in lease payments to the Monroe County Municipal Building Authority, which is about 4% of 2004 expenses.
- The \$600,000 increase in total expenses between the prior year and the current year is due primarily to the increase in personnel services as noted above and an increase of capital outlay for equipment and building improvements.

Library Budgetary Highlights for 2004

- Property tax revenue for 2004 was based on 0.8111 mill, decreased again by the Headlee Amendment from the originally voted 0.5 mill and 0.33 mill. Penal fine revenue was budgeted conservatively due to the fluctuating nature of penal fines. Contracted services decreased by approximately \$13,000. The reduction was due to renegotiating the contracts with the Woodlands Library Cooperative. State aid revenue was \$0.436 per capita.
- The 2004 budget reflected a continuation of service enhancements implemented during 2001, 2002, and 2003 and incorporated several projects outlined in a Strategic Plan approved by the library board in 2003. Professional staff in the areas of technology, reference, and children's services continued to provide enhanced services including special programming for all ages throughout the Library System. All staff members were granted a 3% salary increase in 2004. Collection development goals included plans to purchase more materials in all formats including books, recorded books on cassettes and compact disks, videos, DVDs, and reference materials in print and electronic formats. A portion of the materials budget was designated for one-time "grants" to enhance collections in facilities where expansion has been completed or is being planned and to fill "gaps" in the collection throughout the Library System. The library automation system was upgraded in the spring, providing more functionality for staff and a user friendly interface to the library system's online catalog.

**MONROE COUNTY LIBRARY SYSTEM  
MONROE COUNTY, MICHIGAN**

*Management's Discussion and Analysis (Unaudited)  
Year Ended December 31, 2004*

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Next Year's Funding (2005)

- Both library millage issues expired at the end of 2004. The Library Board received permission from the Board of County Commissioners to place a one mill proposal on the August 2004 primary ballot and voters approved the request. Based on the Equalization report issued in June 2004, we expect our budgeted 2005 income from property taxes to be \$5,430,377. This accounts for approximately 80 % of our budgeted operating income.
- State aid for libraries remains an unstable funding source for libraries, based on the State of Michigan's current budget crisis. State aid for 2004-2005 is again budgeted at \$0.436 per capita, but this is always subject to change during the budget process or by Executive Order.
- Penal fine revenue is (and always will be) an unpredictable source of revenue and is budgeted conservatively. The 2004 income was similar to 2003's, but as of February 2005, penal fine revenue is already lagging by 11%.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Statement of Net Assets*  
*December 31, 2004*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$2,453,003
Certificates of deposit	600,000
Receivables:	
Accounts	26,961
Contracts	153,755
Taxes	5,286,905
Capital assets, net of depreciation	<u>5,548,711</u>
 Total Assets	 14,069,335
 <b>Liabilities</b>	
Accounts payable	82,513
Accrued liabilities	48,040
Deferred revenue	5,488,132
Long-term liability:	
Accumulated employee benefits	<u>234,191</u>
 Total Liabilities	 5,852,876
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	5,548,711
Restricted	12,935
Unrestricted	<u>2,654,813</u>
 Total Net Assets	 <u><u>\$8,216,459</u></u>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Statement of Activities*  
*Special Revenue Fund Types*  
*Year Ended December 31, 2004*

	Expenses	Program Revenue		Net (Expense)
		Charges for	Operating	Revenue and
Function/Program		Services	Grants	Changes in Net
				Assets-
				Governmental
				Activities
Governmental activities:				
Library services/operations	\$5,721,491	\$239,730	\$0	(\$5,481,761)
General Revenues:				
Taxes				4,182,748
State grant				144,896
Fine and forfeits				1,131,619
Interest				56,441
Other revenue				70,037
Total General Revenues				5,585,741
Change in Net Assets				103,980
Net Assets - Beginning of Year				8,112,479
Net Assets - End of Year				\$8,216,459

See accompanying notes to financial statements.

## GOVERNMENTAL FUND FINANCIAL STATEMENTS

### Special Revenue Funds

Operating Fund - As a component unit of the County of Monroe, the operating fund of the Monroe County Library System operates as a special revenue fund. It is used to account for all financial resources except those that have been designated for specified purposes.

Reserved/Designated Fund - To account for financial resources restricted by outside sources or designated by the Board for specific purposes such as new facilities, insurance replacement, unemployment, scholarships, book endowment, automation, capital, equipment replacement, and other purposes.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Combining Balance Sheet*  
*December 31, 2004*

	Operating	Reserved/ Designated	Totals
<b>Assets</b>			
Cash	\$863,639	\$1,589,364	\$2,453,003
Certificates of deposit	600,000	0	600,000
Receivables:			
Accounts	26,961	0	26,961
Contracts	153,755	0	153,755
Taxes	5,286,905	0	5,286,905
 Total Assets	 <u>\$6,931,260</u>	 <u>\$1,589,364</u>	 <u>\$8,520,624</u>
 <b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$82,513	\$0	\$82,513
Accrued liabilities	48,040	0	48,040
Deferred revenue	5,488,132	0	5,488,132
 Total Liabilities	 5,618,685	 0	 5,618,685
 <b>Fund Balances</b>			
Reserved:			
- Margolis ALA conference	0	2,675	2,675
- Monroe facility	0	3,358	3,358
- Maybee facility	0	6,902	6,902
Unreserved:			
Designated:			
- unemployment	0	56,657	56,657
- maintenance	0	101,515	101,515
- operations	1,312,575	0	1,312,575
- endowment	0	67,519	67,519
- equipment replacement	0	289,792	289,792
- automation	0	325,452	325,452
- capital	0	735,494	735,494
 Total Fund Balances	 <u>1,312,575</u>	 <u>1,589,364</u>	 <u>2,901,939</u>
 Total Liabilities and Fund Balances	 <u>\$6,931,260</u>	 <u>\$1,589,364</u>	 <u>\$8,520,624</u>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Reconciliation of Fund Balance to Net Assets*  
*December 31, 2004*

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	<u>Operating</u>	<u>Reserved/ Designated</u>	<u>Totals</u>
<b>Total Fund Balances - Governmental Funds</b>	\$1,312,575	\$1,589,364	\$2,901,939
Amounts reported in the statement of net assets are different because:			
Capital Assets are not financial resources, and are not reported in the funds	5,548,711	0	5,548,711
Compensated absences are included as a liability	<u>(234,191)</u>	<u>0</u>	<u>(234,191)</u>
<b>Total Net Assets - Governmental Activities</b>	<u>\$6,627,095</u>	<u>\$1,589,364</u>	<u>\$8,216,459</u>

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Special Revenue Funds*  
*Combining Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Year Ended December 31, 2004*

	Operating	Reserved/ Designated	Totals
<b>Revenues</b>			
Taxes	\$4,182,748	\$0	\$4,182,748
State grants	144,896	0	144,896
Charges for services	239,730	0	239,730
Fines and forfeits	1,131,619	0	1,131,619
Interest	37,721	18,720	56,441
Other revenues	70,037	0	70,037
 Total Revenues	 5,806,751	 18,720	 5,825,471
 <b>Expenditures</b>			
Cultural:			
Personnel services	3,773,176	0	3,773,176
Supplies	127,887	0	127,887
Charges and services	548,168	0	548,168
Capital outlay	1,484,167	0	1,484,167
 Total Expenditures	 5,933,398	 0	 5,933,398
 Excess (Deficiency) of Revenues over Expenditures	 (126,647)	 18,720	 (107,927)
 <b>Other Financing Sources (Uses)</b>			
Operating transfers in	754	189,797	190,551
Operating transfers out	(189,797)	(754)	(190,551)
 Total Other Financing Sources (Uses)	 (189,043)	 189,043	 0
 <b>Net Change in Fund Balances</b>	 (315,690)	 207,763	 (107,927)
 Fund Balances - Beginning of Year	 1,628,264	 1,381,602	 3,009,866
Fund Balances - End of Year	\$1,312,574	\$1,589,365	\$2,901,939

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities  
Year Ended December 31, 2004*

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**Net Change in Fund Balances - Governmental Funds** (\$107,927)

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials - additions	626,533
Library books and materials - deletions	(660,473)
Capital outlay	384,790
Depreciation	(127,109)

Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	<u>(11,834)</u>
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**Change in Net Assets of Governmental Activities** \$103,980

See accompanying notes to financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 1      Reporting Entity

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

The Monroe County Library System is a component unit of the County of Monroe, Michigan, the oversight unit. The Library is primarily funded through tax levy, fines and fees, and state aid. For financial reporting purposes, only the funds controlled by the Monroe County Library System are included in this report. By accounting principles generally accepted in the United States of America, these funds are required to be in the report of the oversight unit.

Note 2      Summary of Significant Accounting Policies

The accounting policies of the Monroe County Library System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Library's activities
- A change in the fund financial statements to focus on the major funds

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of operations. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 2      Summary of Significant Accounting Policies (Continued)

Government-wide Financial Statements (Concluded)

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to library patrons who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues but are properly reported as general revenues.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The accounts of the Monroe County Library System are organized on a basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one generic fund type and one broad fund category as follows:

**GOVERNMENTAL FUNDS**

**Special Revenue Funds**

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Monroe County Library System operates as a special revenue fund of the County of Monroe. For purposes of this report, the general operating fund is reported separately from other restricted and designated funds. The County collects revenues for the Library and holds them until requested for Library expenditures. The Library's checking accounts are maintained on an imprest system with enough money transferred from the County to the Library to cover approved expenditures. Excess funds and investments are maintained by the County.

**B. Capital Assets**

Capital assets are defined by the Library as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical costs. The value of donated materials, except books, are recognized by the Monroe County Library System at their appraised value. Donated books are posted to a donor list but no appraised value is given. The appraised value of donated books, if calculated, would be immaterial to the financial statements.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 2      Summary of Significant Accounting Policies (Continued)

B. Capital Assets (Concluded)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building improvements	10-39 years
Furniture and equipment	5-10 years
Vehicles	5 years

C. Long-Term Liabilities

Long-term liabilities expected to be financed from the governmental funds are accounted for in the Statement of Net Assets, not in the governmental fund.

- D. The Library reports deferred revenue on its balance sheet and statement of net assets. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Library before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the Library has legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

E. Budget

A budget is adopted by the Library Board of Trustees. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect the actual revenues and expenditures for this fund. The budget is adopted at the activity level. The Board of Trustees is authorized to transfer budget amounts within an activity and to make authorized amendments to the original approved budget. Unexpended appropriations lapse at year end.

F. Deposits

The library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are carried at cost.

G. Receivables

All trade and property taxes receivable are shown net of an allowance for uncollectible amounts. Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 15<sup>th</sup> of the following year, at which time penalties and interest are assessed.

H. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 3      Deposits and Investments

Deposits are carried at cost. Deposits of the Monroe County Library System are at various banks in the name of the Monroe County Treasurer. Act 217, PA 1982, authorizes the County to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptances of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. AGO No. 6478 of 1987, concluded that investments in Government National Mortgage Association (GNMA) instruments are not authorized investments under PA 217 of 1982. Funds of the Monroe County Library System are commingled with other County funds.

The Library's deposits are in accordance with statutory authority. The carrying amount of deposits is separately displayed on the balance sheet as cash and certificates of deposit. The Government Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Library's funds are as follows:

Carrying value of the Library's total deposits	<u>\$3,053,003</u>
Bank balance of the Library's deposits	\$3,164,652
Amount covered by FDIC	<u>(306,420)</u>
In uninsured and uncollateralized accounts	<u>\$2,858,232</u>

Note 4      Related Party Transactions

The Library leases approximately 5.5 acres of land from Monroe County on which the Ellis Information Center is constructed. The Library provides no consideration to Monroe County under terms of this lease which expires in the year 2056. The financial statements do not include any valuation for contributed services by Monroe County or other library patrons.

Note 5      Contracts Receivable

The Monroe County Library System is fiscal agent for the Woodlands Library Cooperative, a regional resource information service. The Library has entered into several contracts with Woodlands which ran through September 30, 2005. The contracts have various payment dates. The Library has also entered into a contract with the City of Monroe for the provisions of maintenance, grounds keeping, utilities, janitorial services, and related costs for the City Library branches. Contracts receivable and \$153,755 of the deferred revenue represents the status of the contracts at December 31, 2004.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

Note 5      Contracts Receivable (Concluded)

	<u>Face Amount of Contract</u>
Woodlands Library Cooperative	
Interlibrary Loan Service	\$ 42,788
Cooperative Periodical Purchasing	2,333
Delivery	25,459
Fiscal Services	2,400
Automation Services	<u>52,725</u>
	125,705
City of Monroe	<u>28,050</u>
	<u>\$153,755</u>

Note 6      Capital Assets

A summary of changes in capital assets follows:

	<u>Balance at January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at December 31, 2004</u>
Building Improvements	\$ -	\$ 329,478	\$ -	\$ 329,478
Equipment and Fixtures	545,743	217,551	-	763,294
Vehicles	84,630	23,663	(17,156)	91,137
Library Collections	4,856,100	626,533	(660,473)	4,822,160
Construction in Progress	<u>185,902</u>	<u>143,576</u>	<u>(329,478)</u>	<u>-</u>
Total	5,672,375	1,340,801	(1,007,107)	6,006,069
Less: Accumulated Depreciation	<u>(347,405)</u>	<u>(127,109)</u>	<u>(17,156)</u>	<u>(457,358)</u>
Net Capital Assets	<u>\$5,324,970</u>	<u>\$1,213,692</u>	<u>\$ (989,951)</u>	<u>\$5,548,711</u>

Depreciation is recorded using the straight-line method over ten to thirty-nine years for building improvements, five to ten years for equipment and fixtures, and five years for vehicles.

Library collections consist of books, video materials, and recordings. The collections are recorded based on a year-end inventory. The value of the inventory is recorded using an average cost of ten dollars per unit.

The Library has a collection of artwork presented for public exhibition and education. The items in the collection are pieces of artwork that have won art shows or have won the library award. These pieces of artwork are available for loan to the public. The collection is not capitalized or depreciated as part of fixed assets.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 7      Property Taxes

The Library was authorized by a special election to levy 0.8111 mills. The Library's 2004 property taxes were levied on December 1, 2003 on assessed valuations as of December 31, 2002. The taxable value for real and personal property for the year amounted to \$5,067,187,215 based on a percentage of the property's fair market value. Taxes levied December 1, 2004, totaling \$5,334,377 were recorded as taxes receivable and deferred revenue. At December 31, 2004, taxes receivable were \$5,286,905.

Note 8      Long-Term Liability for Compensated Absences

The personnel policy of the Library provides its full time employees the right to payment for unused vacation and sick time hours. Accumulation of unused sick time hours provides for conversion to vacation hours. The Library has estimated its long-term liability for these accumulated hours as of December 31, 2004 and such amounts are recorded in the statement of net assets.

The following is a summary of changes in long-term debt:

	<u>Balance</u> <u>December 31, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2005</u>
Compensated Absences	<u>\$222,357</u>	<u>\$11,834</u>	<u>\$_____</u>	<u>\$234,191</u>

Note 9      Lease Commitments

The renovation of the Monroe County Library System's Ellis Information and Reference Center began during 1998. The renovation was financed with 1998 Building Authority Limited Tax General Obligation Bonds. The County of Monroe and the Monroe County Municipal Building Authority entered into a Full Faith and Credit General Obligation Contract of Lease agreement to issue the \$1,800,000 bonds. The Monroe County Library System entered into a sub-contract to lease the Ellis Information and Reference Center from the County of Monroe with lease payments equivalent to the annual debt service on the bonds. The building lease expense was \$244,525 for 2004. Following are the annual lease payment obligations:

<u>Year</u>	<u>Amount</u>
2005	\$235,525
2006	226,775
2007	266,813
2008	<u>255,625</u>
	<u>\$984,738</u>

Note 10      Pension and Post Retirement Commitment  
Plan Description

Full-time employees of Monroe County Library System are participants in the Monroe County Employees Retirement System. The County has a defined benefit pension plan covering substantially all its employees. The plan is operated by the County of Monroe. Additional significant information regarding the Monroe County Employees Retirement System pension plan and pension trust fund investments are included in the report of examination for the County of Monroe for the year ended December 31, 2004.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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**Note 10**     Pension and Post Retirement Commitment (Continued)

Funding Policy

Employees of the Library are not required to contribute to the plan. The Library is required to make annual contributions based on an actuarially computed percentage of covered wages in amounts sufficient to cover normal cost of benefits and amortize the prior service liabilities over a period of future years.

Annual Pension Cost

For the year ended December 31, 2004, the Library's annual pension cost for the plan was zero. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 7.0 investment rate of return, (b) projected salary increases of 5.0 percent to 12.0 percent per year, and c) no cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. Liabilities created by plan changes, assumption changes, or method changes are amortized as a level percentage of payroll over a twelve year closed period. Liabilities created by plan experience and all other liabilities or overfunding are amortized as a level percentage of payroll over a nine year open period.

Three-Year Trend Information

	<u>Valuation Ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual pension cost (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100.00%	100.00%	100.00%
Net pension obligation	-	-	-
Actuarial value of assets	11,048,683	10,884,841	11,938,919
Actuarial accrued liability			
(entry age) (AAL)	7,641,271	8,049,777	8,863,889
Unfunded AAL (UAAL)	(3,407,412)	(2,835,064)	(3,075,030)
Funded ratio	144.60%	135.20%	134.70%
Covered payroll	1,680,579	1,808,581	1,973,464
UAAL as a percentage of covered payroll	(202.75)%	(156.76)%	(155.82)%

The Library system also provides health benefits to the retirees. The Library was returned \$266,326 to pay the 2004 current year costs of the retiree health benefits. As of December 31, 2003, the Library had \$396,593 in the Monroe County Employees Retirement System for retiree health care. The Library will continue to provide health benefits from the Monroe County Employees Retirement System until all the funds are depleted.

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Notes to Financial Statements*  
*Year Ended December 31, 2004*

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Note 10      Pension and Post Retirement Commitment (Concluded)  
Three-Year Trend Information (Concluded)

Meanwhile, the Monroe County Library System will contribute to the Retiree Health Care Benefits Plan and Trust which was adopted on December 17, 2001. The Monroe County Library Retiree Health Care Benefits Plan and Trust (Plan and Trust) was established under the authority of the Public Employee Health Care Fund Investment Act, Public Act 149 of 1999, and shall constitute a “voluntary employees beneficiary association” (“VEBA”) under Section 501(c)(9) of the Internal Revenue Code, as amended. The assets of the Plan and Trust shall be held in trust for the exclusive purpose of providing health care and life insurance benefits to eligible retirees and their beneficiaries who are receiving retirement benefits from the Monroe County Employees Retirement System. The Library System is permitted to invest assets of the plan and trust in investments, subject to the limitations governing the investment of assets of public employee retirement systems under the Public Employee Retirement System Investment Act, PA 314 of 1965, as amended. The assets of the Fund shall be invested in accordance with the Investment Policy as established by the Board of Trustees and the Public Employee Retirement System Investment Act. The Library’s contribution to the Plan and Trust for 2004 was \$382,923 to fund retiree health benefits as a result of an actuarial valuation as of December 31, 2002. The following is the actuarial liability.

	<u>Valuation Ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 797,464	\$ 858,826	\$1,128,169
Actuarial accrued liability (AAL)	3,895,996	5,624,280	7,220,874
Unfunded AAL	3,098,532	4,765,454	6,092,705
Funded ratio	20.5%	15.3%	15.6%

Note 11      Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman’s compensation). The Library has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

## REQUIRED SUPPLEMENTAL INFORMATION

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Operating Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2004*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Taxes:				
Current levy	\$4,143,370	\$4,143,370	\$4,098,374	(\$44,996)
Industrial facilities	65,000	65,000	81,267	16,267
Other	4,500	4,500	3,107	(1,393)
	<u>4,212,870</u>	<u>4,212,870</u>	<u>4,182,748</u>	<u>(30,122)</u>
State grants:				
State aid	118,272	118,272	125,863	7,591
Inventory tax	21,000	21,000	19,033	(1,967)
	<u>139,272</u>	<u>139,272</u>	<u>144,896</u>	<u>5,624</u>
Charges for services:				
Contractual services	218,238	218,238	219,965	1,727
Copy machine charges	9,000	9,000	13,213	4,213
Sale of publications	0	0	167	167
Sale of books and supplies	1,500	1,500	6,385	4,885
	<u>228,738</u>	<u>228,738</u>	<u>239,730</u>	<u>10,992</u>
Fines and forfeits:				
Penal fines	885,000	885,000	1,069,024	184,024
Overdue charges	75,000	75,000	62,595	(12,405)
	<u>960,000</u>	<u>960,000</u>	<u>1,131,619</u>	<u>171,619</u>
Interest	11,970	11,970	37,721	25,751
Other revenues:				
Special events and programs	0	0	12,450	12,450
Sale of fixed assets	2,000	2,000	459	(1,541)
Writers on the river	0	0	2,568	2,568
Gifts and bequests	1,000	1,000	2,327	1,327
Miscellaneous revenue	2,000	2,000	52,233	50,233
	<u>5,000</u>	<u>5,000</u>	<u>70,037</u>	<u>65,037</u>
Total Revenues	5,557,850	5,557,850	5,806,751	248,901
<b>Expenditures</b>				
Cultural:				
Personnel services:				
Salaries and wages	2,932,202	2,866,709	2,787,434	79,275
Payroll taxes	222,107	224,707	214,006	10,701
Fringe benefits	810,502	816,749	771,736	45,013
	<u>3,964,811</u>	<u>3,908,165</u>	<u>3,773,176</u>	<u>134,989</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Operating Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2004*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Expenditures (Concluded)</b>				
Supplies:				
Postage	\$24,000	\$24,000	\$13,823	\$10,177
Office supplies	77,500	80,500	80,544	(44)
Other	7,000	9,000	8,262	738
Automation	30,000	30,000	25,258	4,742
	<u>138,500</u>	<u>143,500</u>	<u>127,887</u>	<u>15,613</u>
Charges and services:				
Professional services	57,000	61,000	44,947	16,053
Cooperative services	59,136	62,826	62,616	210
Telephone	180,500	185,500	129,129	56,371
Computer services	14,000	14,000	0	14,000
Mileage and travel	26,000	26,000	25,162	838
Printing and binding	35,000	40,000	38,457	1,543
General insurance	37,800	39,565	39,565	0
Utilities	75,300	75,600	66,622	8,978
Repair and maintenance	75,000	88,191	81,736	6,455
Rentals	1,000	1,000	948	52
Other	7,500	8,000	4,699	3,301
Janitorial services	52,700	53,900	54,287	(387)
	<u>620,936</u>	<u>655,582</u>	<u>548,168</u>	<u>107,414</u>
Capital outlay:				
Equipment and building improvements	719,720	719,720	517,629	202,091
Books	493,000	493,000	440,904	52,096
Video materials	93,000	93,000	89,206	3,794
Periodicals and microfilm	50,000	55,000	54,805	195
Recordings	88,000	98,000	96,423	1,577
Software and electronic media	54,000	56,000	40,675	15,325
Building lease	244,525	244,525	244,525	0
	<u>1,742,245</u>	<u>1,759,245</u>	<u>1,484,167</u>	<u>275,078</u>
Total Expenditures	<u>6,466,492</u>	<u>6,466,492</u>	<u>5,933,398</u>	<u>533,094</u>
Excess (Deficiency) of Revenues over Expenditures	(908,642)	(908,642)	(126,647)	781,995
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	656,786	656,786	754	(656,032)
Operating transfer out	0	0	(189,797)	(189,797)
Total Other Financing Sources (Uses)	<u>656,786</u>	<u>656,786</u>	<u>(189,043)</u>	<u>(845,829)</u>
<b>Net Changes in Fund Balances</b>	<u>(251,856)</u>	<u>(251,856)</u>	<u>(315,690)</u>	<u>(63,834)</u>
Fund Balances - Beginning of Year	<u>1,193,945</u>	<u>1,193,945</u>	<u>1,628,264</u>	<u>434,319</u>
Fund Balances - End of Year	<u>\$942,089</u>	<u>\$942,089</u>	<u>\$1,312,574</u>	<u>\$370,485</u>

**MONROE COUNTY LIBRARY SYSTEM**  
**MONROE COUNTY, MICHIGAN**

*Reserved/Designated Fund*  
*Required Supplementary Information*  
*Budgetary Comparison Schedule*  
*Year Ended December 31, 2004*

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Interest	\$5,530	\$5,530	\$18,720	\$13,190
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	0	0	189,797	189,797
Operating transfers out	(656,786)	(656,786)	(754)	656,032
Total Other Financing Sources (Uses)	(656,786)	(656,786)	189,043	845,829
<b>Net Changes in Fund Balances</b>	(651,256)	(651,256)	207,763	859,019
Fund Balances - Beginning of Year	1,459,449	1,459,449	1,381,602	(77,847)
Fund Balances - End of Year	<u>\$808,193</u>	<u>\$808,193</u>	<u>\$1,589,365</u>	<u>\$781,172</u>



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Board of Directors  
Monroe County Library System  
Monroe County, Michigan 48161

Report of Comments and Recommendations

Our audit of the financial statements of the Monroe County Library System for the year ended December 31, 2004, was conducted in accordance with auditing standards generally accepted in the United States Of America. These standards require, in addition to obtaining competent evidential matter through inspection, observation, inquiry, and confirmation, that we determine that existing internal control, accounting procedures, and accounting records are adequate to allow us to express an opinion on the financial statements of the Monroe County Library System.

As a result of our audit, we do not have any comments or recommendations that should be brought to the attention of the Board.

We wish to express our appreciation for the continuing cooperation and courtesy extended to us by all employees of the Monroe County Library System.

Very truly yours,

A handwritten signature in cursive script that reads 'Cooley Hehl Wohlgamuth &amp; Carlton'.

January 21, 2005